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OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE  
WASHINGTON 25, D. C.

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*I-18809/61*

MEMORANDUM OF CONVERSATION  
INTERNATIONAL SECURITY AFFAIRS

28 July 1961

PRESENT: Mr. Watkinson  
Lord Mountbatten  
General Festing  
Sir Solly Zuckerman  
Mr. Frank Mottershead  
Sir Evelyn Shuckburgh  
Secretary McNamara  
General Lemnitzer  
Ambassador Bruce  
Assistant Secretary Nitze  
Assistant Secretary Sylvester

PLACE: 10 Carlton Terrace, London, England

TIME: Monday Evening, July 24, 1961

While coffee was being served, Mr. Watkinson asked us to move up to his end of the table. He had a new subject which he wanted to discuss in all seriousness. He described the British balance of payments situation and the general nature of the statement that Selwyn Lloyd was to make the next day on the subject in Parliament. He said that as a result of the basic review of the United Kingdom's balance of payments situation, the Cabinet had ordered him to effect a long term reduction in the U.K.'s expenditures outside the NATO area of £35,000,000 per annum. From a preliminary review of their situation, it looked as though this would entail very radical steps indeed. It looked as though they might have to withdraw their forces from Hong Kong, from Singapore and, in fact, from all positions east of Aden, and might also have to withdraw their forces from Cyprus. He indicated that they could and did wish to hold on to Aden for the indefinite future. Lord Mountbatten suggested they might also wish to hold on to the Island of Gan. Mr. Watkinson said he realized the seriousness of such moves, both from the standpoint of their own position and of ours. They were particularly concerned about withdrawing the Commonwealth brigade from Singapore. They would wish to have serious discussions with us about this development before they took final action. He left the impression that they would want to make a final decision within the next three to four months.

Mr. McNamara commented that the loss of Hong Kong would probably cost them more in foreign exchange than the £35,000,000 per annum they were

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attempting to save. Mr. Watkinson agreed that very complex issues were at stake, but that he was under firm instructions to make this cut in his expenditures.

It was agreed that we would be in further touch with each other on this subject promptly.

Paul H. Nitze

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